

Existing Homes Alliance Scotland Evidence Scottish Parliament Local Government & Communities Committee Call for evidence on the draft Budget 2017-18

25th October 2016

Introduction

The Existing Homes Alliance welcomes the opportunity to submit evidence to the Local Government and Communities Committee ahead of its scrutiny of the Scottish Government's draft budget for 2017/18. Budget decisions will have a significant bearing on the delivery of the Scottish Government's flagship policy to tackle climate change and fuel poverty - schemes to improve the energy efficiency of existing homes. With responsibility for ensuring that policies deliver against Scotland's Climate Change Act now mainstreamed across Government, the Committee has a vital role to play to ensure that these schemes are funded at the scale necessary to deliver against Scotland's Climate Change Act.

In our evidence last year we called for a substantial increase in funding for energy efficiency, to reflect the welcome decision by the Scottish Government in June 2015 to designate energy efficiency as a National Infrastructure Priority. We were disappointed that in the final 2016/17 Scottish Budget, funding for energy efficiency **was cut by £15m (a 13% reduction year-on-year)**, further slowing progress in improving the efficiency, comfort and emissions performance of Scotland's existing homes. In its 2016 Programme for Government the Scottish Government made a welcome commitment to spend £500m on energy efficiency across this Parliament. Although this represents a small increase in annual spend, this briefing shows that funding would remain well short of what is required to deliver the National Infrastructure Priority.

New evidence from the Committee on Climate Change has confirmed that to hit future climate targets, the scale of energy efficiency improvements in existing homes will need to increase¹. With an expanded energy efficiency programme due to start in 2018 (Scotland's Energy Efficiency Programme), we believe that as a transitional year funding in 2017/18 should be increased to reflect both the National Infrastructure Priority and the increased scale of activity that will be required to hit climate targets and remove poor energy efficiency of buildings as a cause of fuel poverty. Even in a challenging budgetary environment, we believe that the energy efficiency represents good value for money and will also help achieve other Scottish Government objectives on reducing inequalities, improving health and supporting jobs.

In this briefing we highlight the following points:

- **Investment in the energy efficiency of existing homes is essential to meeting climate change targets, tackling fuel poverty and represents good value for money with many wider benefits.**
- **The National Infrastructure Priority should have the objective of improving all homes to reach at least a 'C' EPC rating by 2025 – this would deliver the emissions abatement required from housing by 2025 and be commensurate with the scale of the challenge of eradicating fuel poverty in Scotland.**
- **The Alliance estimates that £450m per annum (average) for 10 years of public funding is required to deliver this, though the budget will be ramped up over time. Further private financing would be leveraged, through the use of loan guarantees and regulation.**
- **As a transitional year, the 2017/18 Scottish Budget should allocate in the region of £190m for energy efficiency, so that total public spending on energy efficiency in Scotland is increased to £250m for the year 2017/18.**
- **This would allow for expansion of existing schemes and pilots, providing confidence to supply chains as the industry scales up for the start of Scotland's new energy efficiency programme (SEEP).**
- **SEEP will need to provide a combination of public funding for grants and loans and regulations to leverage further private investment.**

¹ Committee on Climate Change (2016) Scottish Climate Change Targets 2028 - 2032

Housing and climate change

The Existing Homes Alliance believes that the existing housing sector is not on track to deliver the emissions reductions that will be required to hit climate targets in future years. Housing is a significant contributor to Scotland's climate change emissions, with residential emissions accounting for 13% of Scotland's total emissions in 2014. The vast majority (80%) of our current homes will still be standing in 2050, the current deadline for Scotland's main climate change target. This means that, in order to meet climate change targets, the primary focus must be on improving the energy efficiency of the existing housing stock. If the approach is solely about new homes, then this will be insufficient to meet our climate change targets.

Housing is an area where Scotland has made relatively little progress in reducing emissions. Once adjustments for temperature are made, emissions have fallen by less than 0.8% per year in the residential sector since the Climate Change Act was introduced in 2009². Whilst there have been some welcome improvements in the energy efficiency of Scotland's buildings, delivered through the Scottish Government's Home Energy Efficiency Programme for Scotland (HEEPS) and the UK Government's Energy Company Obligation (ECO), the poor energy efficiency of Scotland's housing stock continues to mean that climate emissions from the domestic sector can vary wildly from year-to-year, dependent on winter weather. With improved energy efficiency, this variability would be engineered out of the system.

Meeting climate targets

In order to meet our 2030 climate targets the scale of energy efficiency programmes will need to be increased. The Scottish Government's independent advisors on climate change, the Committee on Climate Change, recommend that an extensive upgrade of a significant number of homes in Scotland by 2030 will keep us on the cost-effective path to meeting climate targets³. Analysis by the Existing Homes Alliance suggests that improving all homes to at least an Energy Performance Certificate rating of 'C' by 2025 would put the sector on track to deliver the emissions abatement recommended for the sector by the Committee by 2030, as well as eradicating fuel poverty in Scotland. This objective for the programme is supported by more than 50 organisations in Scotland⁴ in a joint statement. This means at least 127,000 homes would be upgraded every year between now and 2025, which we estimate could be four times the current numbers helped through the Home Energy Efficiency Programmes. Looking further ahead, emissions from the housing sector will need to continue to reduce as we head to 2050, eventually reaching near-zero.

We have estimated that to bring all homes to at least EPC C by 2025 will require approximately £10.7bn over 10 years⁵ of which £4.5bn would be made up of public investment. The programme would be funded by a combination of government grants for the fuel poor, incentives and low interest loans for the able to pay, and investment from homeowners, landlords, and other sources such as the energy supplier obligation (ECO).

Tackling fuel poverty

Fuel poverty in Scotland remains at a level of 35%, or 845,000 households, for the last year for which figures are available (2014). This was not statistically different to the figure for the previous year, 2013. It is clear that the statutory target for eradicating fuel poverty, with a deadline of November 2016, has not been met, and this should spur a re-doubling of efforts to eradicate fuel poverty in Scotland. The recently published report of the Scottish Fuel Poverty Strategic Working Group made a whole number of different recommendations for further action to eradicate fuel poverty in Scotland. In terms of the energy efficiency of buildings, the report recommended that:

- Recommendation 24: The SEEP Programme should have a central objective to eliminate poor energy performance of a property as a driver of fuel poverty throughout all of Scotland including rural areas.
- Recommendation 25: The SEEP Programme should include a milestone towards achieving this anti-fuel poverty aim, with all properties of fuel poor households upgraded to at least an EPC band C by 2025 with five-yearly targets set for progress towards EPC band B thereafter

² <https://documents.theccc.org.uk/wp-content/uploads/2016/09/Reducing-emissions-in-Scotland-2016-Progress-Report-Committee-on-Climate-Change.pdf> [see page 44]

³ Committee on Climate Change (2016) Scottish Emissions Targets 2028 - 2032

⁴ http://existinghomesalliancescotland.co.uk/wp-content/uploads/2015/10/EXHAS_jointstatement_Oct15.pdf

⁵ Building the Future: The economic and fiscal impacts of making homes more energy efficient, 2014, Consumer Futures

As discussed elsewhere in this evidence, this year's budget should reflect these recommendations. Poorly heated, damp and cold homes can pose significant health risks to their occupants, and there continues to be a health cost to fuel poverty in Scotland. Last winter (2015/16), an additional 2,850 people died during the winter months, when compared to the average for the rest of the year. It is likely that some of these mortalities could have been avoided if all homes in Scotland were adequately insulated and heated - the World Health Organisation has in the past estimated that 30% of such deaths are attributable to cold homes⁶. Similarly, the Existing Homes Alliance has estimated that if an objective of supporting all homes to reach at least a 'C' EPC rating by 2025 could save the NHS up to £80m per year by reducing the incidence of cold-related illnesses.

Benefits

An ambitious National Infrastructure Project on energy efficiency would deliver against many government objectives. As well as reducing carbon dioxide emissions by over 1 million tonnes per year by 2025⁷, it would help reduce the number of households currently living in fuel poverty in Scotland (currently estimated to be 845,000⁸). It is estimated that such a programme could create 8-9000 jobs per year, spread around Scotland unlike other infrastructure projects and with a large proportion of them with small- and medium-sized businesses, and boost economic productivity by shifting spending from energy to more productive uses. Economists have previously described energy efficiency investment as a 'direct shot in the arm' for the economy⁹, because it delivers a relatively rapid economic stimulus, in comparison to other forms of infrastructure investment. On that basis, Dimitri Zenghelis of the London School of Economics welcomed the infrastructure investment into energy efficiency that the Scottish Government made as part of its post-EU referendum stimulus package, saying that it showed the Scottish Government 'recognise the immediate economic benefit and value of channelling new infrastructure investment into scaled-up home energy efficiency programmes.' However, he went on to say that the package was small in relation to the size of the Scottish economy and that, 'if the Scottish Government were to increase its warm homes spending, it would find its investment paid back many times over.'¹⁰

Bridging the funding gap

A scaling-up of approach will require increased public investment by the Scottish Government: from around £120m per year at present, to at least £450m of total public funding per year by 2020, at the end of this Parliament. With a significant gap between current funding levels and those required to deliver the National Infrastructure Priority, funding will need to be stepped-up year on year as the scheme expands, to enable the industry to keep pace with the necessary scale of expansion. As a transitional year, total public funding for energy efficiency schemes in Scotland should therefore be increased to £250m per year by the 2017/18 Budget. This would require in the region of £190m to be allocated by the Scottish Government to energy efficiency measures in the Budget, alongside an expected £60m spend on energy efficiency in Scotland through the UK Government's ECO scheme (this is only an estimate and actual spend in Scotland may be lower owing to significant changes to the policy made this year. If ECO funding is lower than expected, the Scottish Government would need to further increase its own spending). Additional funding in the next Scottish Government budget would allow existing programmes and pilots to be expanded, and provide confidence to the supply chain to begin scaling up for delivery of SEEP.

The table below sets out the recent mix of Scottish Government and UK funding for energy efficiency, what is required of this budget and the target spend that should be aimed for in 2020/21:

⁶ The World Health Organisation estimates that 30% of such deaths are attributable to cold homes - see p.88 here:

http://www.euro.who.int/_data/assets/pdf_file/0003/142077/e95004.pdf

⁷ Building the Future: The economic and fiscal impacts of making homes more energy efficient, 2014, Consumer Futures

⁸ Scottish Government (2014) Scottish House Condition Survey

⁹ In a press release – copy available on request. For example of coverage see here <http://www.bbc.co.uk/news/uk-scotland-37340096>

¹⁰ Dimitri Zenghelis was formerly Acting Chief Economist for the Global Commission on the Economy and Climate. For further information see also this comment piece from the Herald from Professor Turner of Strathclyde University, http://www.heraldscotland.com/opinion/14798226.Making_buildings_energy_efficient_will_brings_so_many_added_benefits/

Current and required public spending on energy efficiency in Scotland

	Historic spend		This budget (Scot Gov anticipated) ¹¹	This budget required (ExHA recommended)	Target spend required (ExHA recommended)
	2015/16	2016/17	2017/18	2017/18	2020/21
Scottish Government spend	£119m	£105m	£125m	£190m	£390m
ECO spend in Scotland (funding raised by UK Govt. set rules)	Est. £93m ¹²	Est. £60m ¹³	Est. £60m	Est. £60m	Est. £60m
Total public spend in Scotland (est)	£219m	£165m	£185m	£250m	£450m

This investment would represent a benefit cost ratio of over 2:1, and therefore falls into the category of ‘high’ value for money, and compares favourably in terms of value for money with other infrastructure projects¹⁴. We expect that a significant proportion of Scottish Government funding could come through financial transactions funding allocated by HM Treasury to the Scottish Government. In recent years, these have largely come through Barnett consequential for UK housing equity and loan schemes¹⁵.

The Existing Homes Alliance Scotland is a coalition of environmental, anti-poverty, consumer, and housing organisations that believes Scotland’s existing housing stock must be transformed to help tackle fuel poverty and climate change.

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¹¹ Based on figures included in the Programme for Government.

¹² Based on figures for 2014/15 included in this SPICE briefing - http://www.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB_16-18_Fuel_poverty_in_Scotland_2016.pdf (see page 16)

¹³ Based on figures included in the report of the Scottish Fuel Poverty Strategic Working Group: <http://www.gov.scot/Resource/0050/00508195.pdf>

¹⁴ The Scottish Government cannot use financial transactions funding as capital grant, but only for the provision of loans or equity investment beyond the public sector, and it must be repaid to the UK Government in future years.

¹⁵ Building the Future: The economic and fiscal impacts of making homes more energy efficient, 2014, Consumer Futures